Lazard
Australian Equity Fund

Sep 2023
Factsheet

Risk Aware
Focus on benchmark and absolute risk

Disciplined 'Value' Investment Approach
Longer-term independent thinking

Stability and Experience
Team together at Lazard for more than 20 Years

Performance[2] (%)

	Lazard (W Class)	Lazard (I Class)	Index
1 Month	-1.3	-1.3	-2.8
3 Months	1.4	1.4	-0.8
1 Year	14.5	14.6	13.5
3 Years (pa)	17.2	17.4	11.0
5 Years (pa)	6.1	6.2	6.7
10 Years (pa)	7.0	7.1	7.4
Since Inception (pa)	8.5		8.8
Since Inception (pa)		9.1	7.9

Inception Date (W Class): 16 December 2002
Inception Date (I Class): 17 October 2000

Investment Characteristics

	Lazard	Index
Price/Cash Flow	9.2	9.9
Price/Book Value	1.5	2.0
Dividend Yield (%)	5.0	4.2
Forward Price/Earnings	14.1	15.3
Active Share (%)	62.3	-
3 Year Turnover (%pa)	34.7	-

Fund Facts

Number of stocks	38
Total Fund Size	$174.3m
Inception Date	16 December 2002
Total Management Costs	W Class: 0.70% p.a.
Index	S&P/ASX 200
Minimum Investment	$20,000
Buy/Sell Spread	0.20%/0.20%
Distributions	Quarterly[1]
APIR Code	LAZ0010AU

Allocations (%)

Sector	Lazard	Index	Overweight/ Underweight
Communication Services	0.4	4.0	-3.6
Consumer Discretionary	10.0	6.9	3.1
Consumer Staples	9.9	4.6	5.3
Energy	12.7	5.9	6.8
Financials	27.7	28.7	-1.0
Health Care	4.9	9.0	-4.1
Industrials	11.2	6.9	4.3
Information Technology	-	2.4	-2.4
Materials	18.4	24.1	-5.7
Real Estate	3.8	6.0	-2.2
Utilities	-	1.5	-1.5
Cash	1.0	-	1.0

Top 5 Holdings (%)

	Lazard	Index
BHP Group	8.3	10.7
Woodside Energy	5.6	3.3
Rio Tinto	4.5	2.0
Santos	4.3	1.2
QBE Insurance	3.9	1.1

Down Market Capture Ratio

Down Market Capture Ratio is calculated since inception and based on performance net fees. Down Market Capture is a statistical measure of an investment manager's overall performance in down markets, being calendar months where the Index experiences negative performance. A drawdown ratio (or percentage) of less than 100 (or 100%) reflects that the manager has outperformed the Index during such down markets.

1 Distributions are made quarterly if of an economic size.
Performance is presented net of W Class fees, please refer to www.lazardassetmanagement.com for performance of the I Class. Investments can go up and down. Past performance is not necessarily indicative of future performance. Net returns are quoted after the deduction of Management Costs. Performance assumes reinvestment of all distributions.

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Commentary

Australian equities fell through September 2023, as investors took a cautious stance during a period where the Australian 10-year bond yields reached the strongest levels since October 2011. The S&P/ASX 200 outperformed the Developed World performance, with a fall of -2.8% in September, while the S&P 500 also fell -4.8% in local currency terms. For the quarter ending September 2023, the S&P/ASX 200 ended down -0.8%. On a sector basis, Energy, Financials, and Consumer Staples outperformed in Australia, and Health Care, IT, and REITs sectors were the relative worst performers during the month.

During the quarter ended September 2023, the Lazard Australian Equity Fund returned 1.4% (net of W Class fees), outperforming the S&P/ASX 200 Accumulation Index which declined -0.8%.

Contributors to Performance

- Monadelphous (MND) was a contributor to portfolio performance over the current quarter. The company announced several major construction contract awards in the lithium and iron ore segment, bringing the value of secured contracts since the start of FY23 to nearly A$1bn with over half of this post balance date. Monadelphous Managing Director, Zoran Bebic, stated that these contracts represented the first in a new wave of major construction projects to come to market. We continue to remain shareholders in MND, with the view that the medium-term earnings power of the company is higher than its current share price valuations.

- Costa Group’s (CGC) shares performed strongly during Q3 2023, rising around 15% after the board entered a Scheme of Arrangement with Paine Partners for the sale of the company at a price of A$3.20 per share. This price was disappointingly lower than the A$3.50 level discussed few months earlier before CGC’s most recent earnings downgrade.

Detractors from Performance

- Despite reporting results and guidance in-line with market expectations, Waypoint REIT’s (WPR) underperformance accelerated over Q3 2023 as bond yields rose. The ‘higher for longer’ thesis for bond yields placed pressure on the broader REIT sector, with the key implications being negative asset revaluations and rising debt costs. WPR is relatively well-positioned, with full-year CY23 earnings guidance unchanged being flat versus the prior year, with ~3% rent growth offset by the full-year impact of prior asset sales and higher cost of debt. The balance sheet remains strong with gearing at the low end of the 30-40% target range and 93% hedging for FY24, providing significant headroom. We are still awaiting the competition regulator ACCC’s adjudication of main tenant Viva Energy’s (VEA) acquisition of On the Run (OTR). This will determine VEA’s rollout of the OTR format across the store network, which could be partially funded by WPR and provide redevelopment returns. WPR currently trades at a 7.3% dividend yield and 25% discount to net tangible assets, providing a good valuation support.

- Healius (HLS) was subject to a conditional non-binding offer from another pathology services operator to acquire the company in March 2023, which offered some support to the shares in recent months. However, the stock underperformed the market in Q3 2023 in anticipation and later release of the ACCC’s preliminary finding that the acquisition would likely substantially lessen competition in Australian pathology services. This highlighted that the proposed offer might need to be revised before it is considered again. At current levels, we believe there is still value in the stock as we believe the market is not yet fully appreciating the recovery in diagnostics volumes and the company’s refocusing initiatives.

Outlook

The first half of 2023 saw a strong recovery in the stock prices of companies that underperformed dramatically in 2022. These price movements were centered on the NASDAQ while the ASX200 was up modesty. This has partly 'reinflated' the large valuation gap between various stocks and sectors in the equity market. Despite this headwind, our portfolios have performed satisfactorily largely due to stock picking as opposed to significant thematic moves. Valuation dispersion remains elevated relative to historic levels, and we view this as highly prospective for our strategies' relative performance over the medium term. While economies and company profits have generally been resilient, there are signs that the large and fast monetary tightening is beginning to bite with several local consumer companies downgrading profits in their recent announcements. We expect the impact of monetary policy to be increasingly felt through the rest of 2023. We are closely watching wage growth and core inflation as we believe this will be a key factor allowing or preventing central banks from lowering interest rates in the face of weakening economic activity.

Our large holding of insurance stocks has performed well as our thesis of strong premium growth plays out. We continue to favor our LNG stocks despite weaker commodity prices due to robust cash flows, potential upside versus long term market assumptions and high returning growth options of which Woodside's recent Trion's Final Investment Decision (FID) is a prime example.

What has become increasingly clear is how unusual the investment regime was in the 2010s. The key features of that period: low inflation, zero bound interest rates, perpetual quantitative easing and negative yielding bonds today already appear as extreme and unusual as long-run history suggests they were. The early 2020s is seeing the establishment of a new investment regime which will likely require a different approach. As with all secular changes, it appears that the markets have only begun to adjust to the new environment. We believe that this delayed market recognition is providing significant opportunities and in a relative sense, we look forward to the year ahead with high expectations.